

Auditing Procedures Report

Issued under P.A. 2 of 1958, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Manistee Housing Commission	County Manistee
Fiscal Year End 12/31/06	Opinion Date September 11, 2007	Date Audit Report Submitted to State September 19, 2007	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|----------|--------|---|
| YES
X | NO
 | Check each applicable box below. (See instructions for further detail.) |
|----------|--------|---|
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☒ ☐ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☒ ☐ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	See Audit Report Index	
Other (Describe)	<input checked="" type="checkbox"/>	See Audit Report Index	
Certified Public Accountant (Firm Name) Asher & Company, LTD.		Telephone Number 215-564-1900	
Street Address 1845 Walnut Street		City Philadelphia	State PA
		Zip 19103	
Authorizing CPA Signature 	Printed Name Michael D. Byrnes		License Number

*FINANCIAL STATEMENTS AND SINGLE AUDIT
IN ACCORDANCE WITH OMB CIRCULAR A-133
TOGETHER WITH INDEPENDENT AUDITORS'
REPORTS*

**CITY OF MANISTEE
HOUSING COMMISSION**

DECEMBER 31, 2006

CITY OF MANISTEE HOUSING COMMISSION

DECEMBER 31, 2006

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**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR END DECEMBER 31, 2006**

This section of the Commission's annual financial report presents Management's analysis of the Commission's financial performance during the Fiscal Year Ended December 31, 2006.

FINANCIAL HIGHLIGHTS AND CONCLUSIONS:

The City of Manistee Housing Commission ended the year with a strong working capital position of \$599,598 which is an increase of \$451,396 from the previous year. The total net assets also increased by \$270,311 which is a significant amount, that is due to an increase in Unrestricted Net Assets of \$431,929 which was offset by a decrease to Invested in Capital Assets of \$(161,618). Accordingly, capital assets decreased by \$(161,618) primarily due to depreciation expense in excess of current capital additions. A summary of significant activities and comparisons between the years is further explained in this document.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Commission report information using accounting methods similar to those used by private sector companies (Enterprise Fund).

The Statement of Net Assets (Balance Sheet) includes all of the Commission's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Commission creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Commission. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Commission is improving or deteriorating.

The current year's revenues, expenses, and changes in net assets are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Commission's operations over the past fiscal year.

The Statement of Cash Flows is to provide information about the Commission's cash receipts and disbursements during the reporting period. The statement reports net changes in cash resulting from operations, investing and financing activities.

FINANCIAL ANALYSIS OF THE COMMISSION

One question frequently asked about a Commission's finances is "Did the Commission's operations and financial position improve or deteriorate over the previous fiscal year?" The Statement of Net Assets and the Statement of Revenues, Expenses and Net Assets report information about the Commission's activities and are summarized in the following sections.

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

To begin our analysis, a summary of the Commission's Statement of Net Assets is presented in Table I.

**City of Manistee Housing Commission
Combined Statement of Net Assets
TABLE I**

	<u>2006</u>	<u>2005</u>	<u>Total Change</u>	<u>% Change</u>
Current Assets	722,268	347,294	374,974	107.97%
Capital Assets	3,141,183	3,302,801	(161,618)	-4.89%
Other Noncurrent Assets	<u>4,216</u>	<u>16,293</u>	<u>(12,077)</u>	-74.12%
Total Assets	<u>3,867,667</u>	<u>3,666,388</u>	<u>201,279</u>	5.49%
Current Liabilities	122,670	199,092	(76,422)	-38.39%
Noncurrent Liabilities	<u>49,024</u>	<u>41,634</u>	<u>7,390</u>	17.75%
Total Liabilities	<u>171,694</u>	<u>240,726</u>	<u>(69,032)</u>	-28.68%
Invested in Capital Assets				
Net of Related Debt	3,141,183	3,302,801	(161,618)	-4.89%
Unrestricted Net Assets	<u>554,790</u>	<u>122,861</u>	<u>431,929</u>	351.56%
Total Net Assets	<u>3,695,973</u>	<u>3,425,662</u>	<u>270,311</u>	7.89%
Total Liabilities & Net Assets	<u>3,867,667</u>	<u>3,666,388</u>	<u>201,279</u>	5.49%

As illustrated in the Combined Statement of Net Assets, the overall Net Assets of the Commission increased by \$270,311. The Statement of Revenues, Expenses and Changes in Net Assets contained in the financial statements, illustrates this increase. The "Invested in Capital Assets - Net of Related Debt" decreased by \$(161,618), which was mainly due to depreciation expense in excess of capital additions. The Unrestricted Net Assets increased by \$431,929 which is mainly due to the recovery of funds received from the fraud loss in prior years. The increase in Net Assets is illustrated in the analysis of the Statement of Revenue, Expenses and Changes in Net Assets.

Current Assets increased \$374,974 which is mainly due to an increase to cash and cash equivalents of \$340,024 as illustrated in the Statement of Cash Flows in the financial statements. The main source of this increase was the partial recovery of funds from fraud loss incurred in prior periods. There was also an increase to miscellaneous accounts receivable of \$6,091.

Current liabilities decreased by \$(76,422) as a result of a reduction to Accrued - Payments in Lieu of Taxes of \$(56,474) which was due to the settlement and payment of prior years PILOT tax. The accrual from 2005 was large because of certain prior year PILOT

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

payments had been improperly paid and recorded as being paid. Accounts payable to vendors decreased by \$(7,075) due to timing differences on year end accruals. Also, current compensated absences decreased by \$(21,792) while non-current accrued compensated absences increased by \$23,683. Consequently, the combined change is immaterial; however, there was a change in classification in anticipation of the longevity of the current employees. Tenant security deposits increased by \$20,859 due to a change of the current policy of amounts to be held for deposit of new residents. Unearned revenue decreased by \$(12,138) as a result of amounts earned in the current period. Other non-current liabilities were reclassified to current during the audit period.

While the Statement of Net Assets shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Assets breaks down our revenues and expenses further. Table II, which follows, provides a combined statement of these changes.

**City of Manistee Housing Commission
Combined Statement of Revenues, Expenses and Changes in Net Assets
TABLE II**

	<u>2006</u>	<u>2005</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenue	563,467	510,066	53,401	10.47%
Grant Funding	453,184	567,654	(114,470)	-20.17%
Interest Income	26,244	5,408	20,836	385.28%
Other Income	585,030	55,338	529,692	957.19%
Total Revenue	1,627,925	1,138,466	489,459	42.99%
Administration	424,608	290,197	134,411	46.32%
Tenant Services	5,992	4,087	1,905	46.61%
Utilities	154,468	151,723	2,745	1.81%
Maintenance	390,844	463,665	(72,821)	-15.71%
Protective services	2,153	2,890	(737)	-25.50%
General expense	114,066	81,843	32,223	39.37%
Depreciation	265,483	257,175	8,308	3.23%
Total Expenses	1,357,614	1,251,580	106,034	8.47%
Change in Net Assets	270,311	(113,114)	383,425	-338.97%
Beginning Net Assets	3,425,662	3,538,776	113,114	3.20%
Ending Net Assets	3,695,973	3,425,662	496,539	14.49%

Other Income nets fraud activity.

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

Table III provides a Statement of Revenues, Expenses and Changes in Net Assets by Revenue Source.

City of Manistee Housing Commission
Combined Statement of Revenues, Expenses and Changes in Net Assets by Revenue Source- By Program
Fiscal Year Ended December 31, 2006

TABLE III

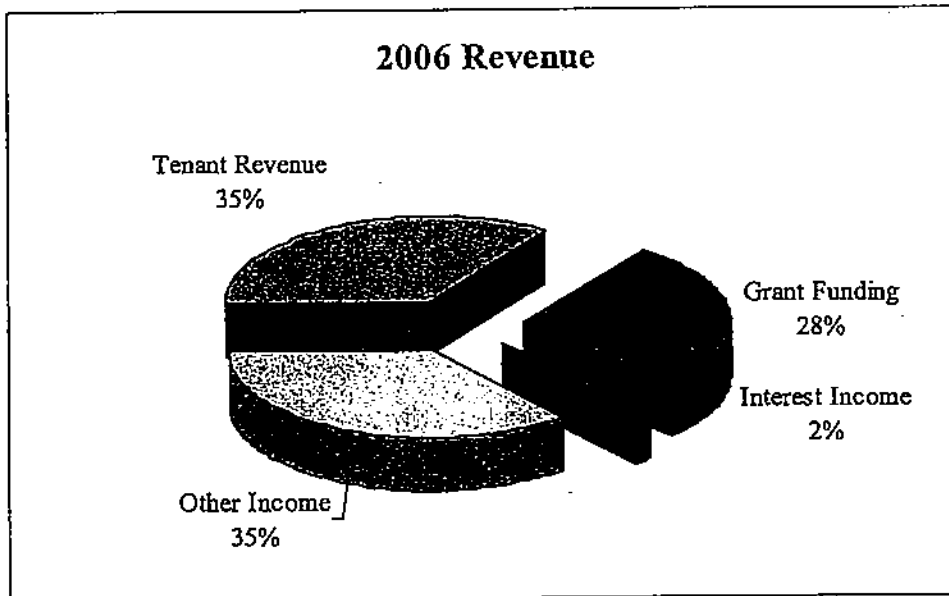
	Low-Rent Public Housing	Capital Fund	Total
Tenant Revenue	563,467	-	563,467
Grant Funding	351,214	101,970	453,184
Interest Income	26,244	-	26,244
Other Income	585,030	-	585,030
Total Revenue	1,525,955	101,970	1,627,925
Administration	392,930	31,678	424,608
Tenant Services	5,992	-	5,992
Utilities	154,468	-	154,468
Maintenance	390,844	-	390,844
Protective services	2,153	-	2,153
General expense	114,066	-	114,066
Depreciation	256,226	9,257	265,483
Total Expenses	1,316,679	40,935	1,357,614
Increase in Net Assets	209,276	61,035	270,311
Beginning Net Assets	3,396,472	29,190	3,425,662
Transfer between Funds	30,800	(30,800)	-
Ending Net Assets	3,636,548	59,425	3,695,973

REVENUES

In reviewing the Statement of Revenues, Expenses and Changes in Net Assets, you will find that 28% of the Commission's revenues are derived from grants from the Department of Housing and Urban Development. The Commission receives revenue from tenants for dwelling rental charges, excess utilities, and miscellaneous charges of 35% of total revenue. As a result of the fraud recovery, other revenues comprised 35% of the total revenue. This amount of revenue from other sources is of course unusual, and is not anticipated in future periods. Compared to

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

the Fiscal Year Ended December 31, 2005, revenues had an overall increase of \$489,459 (42.99%).



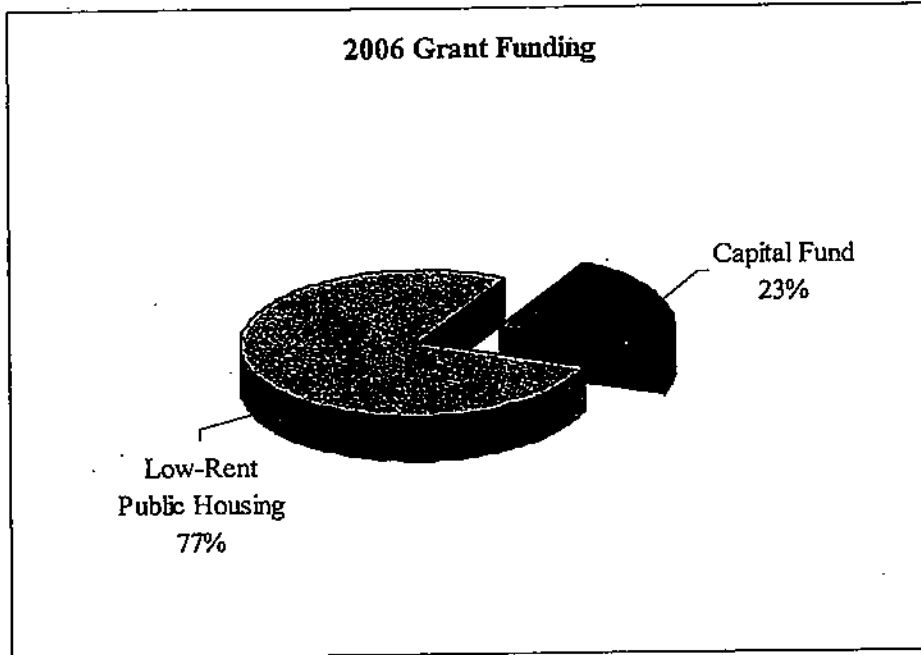
Tenant Revenue - Tenant Revenue had an increase from \$510,066 to \$563,467 of approximately 10.47%. The increase is due to an increase in effort of identifying other charges and services which should be charged to tenants, along with better management and increased resident income which directly impacts dwelling rental income.

Other Revenue - Other income increased from \$55,338 to \$585,030 primarily due to fraud recovery of \$562,955. This revenue was the result of amounts recovered from prior years fraud loss.

Interest Income - Interest income increased from \$5,408 to \$26,244 due to better fiscal management, increased yield on investments and increased amount of funds which could be invested.

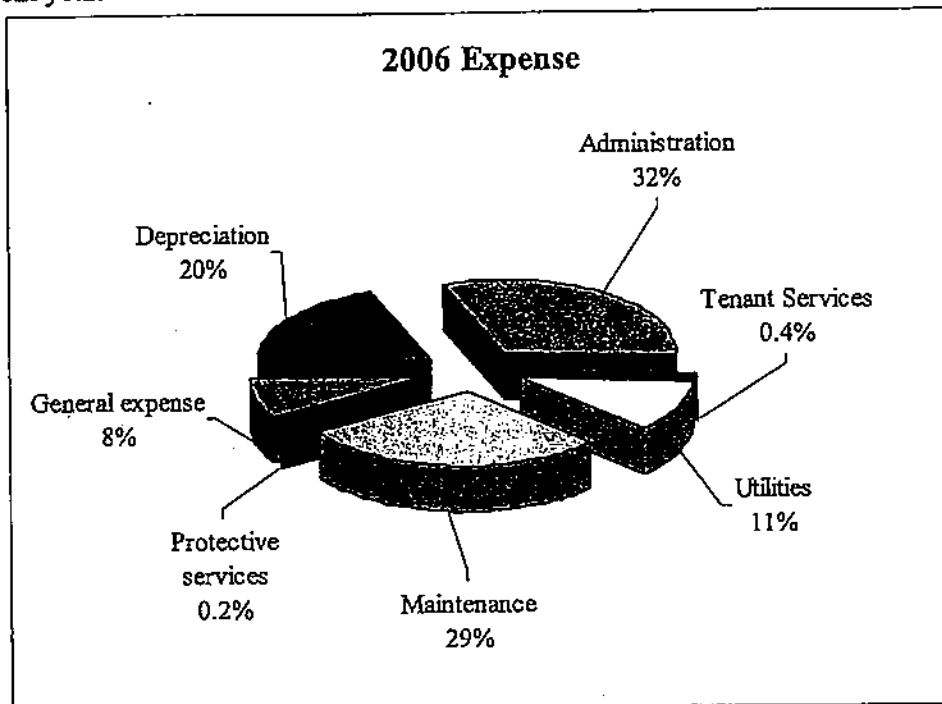
Program Grants/Subsidies - We had a 20.17% decrease in Grant Revenue or \$(114,470) compared to the previous year. This decrease was primarily made up of timing differences in the Capital Fund Program. There was a decrease in the current year expenditures over the prior year of \$(173,193). The Operating Fund subsidy increased from \$292,491 to \$351,214.

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**



EXPENSES

The following chart illustrates the amount of funds expended by category during the current year.



**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

The City of Manistee Housing Commission experienced an increase in total expenses for the current year from \$1,251,580 to \$1,357,614 or \$106,034 (8.47%). The highlights of the expenses for the current year are as follows:

Administrative – Administrative costs include all non-maintenance costs which are administrative salaries, benefits, accrued leave, legal costs, auditing costs, travel, training costs, and other administrative costs such as supplies, telephone expense, etc. Compared to 2005, administrative costs increased by \$134,411 or 46.32%. The increase is mainly due to an increase in other administrative costs of \$85,566. Most of these increased expenses were directly related to legal fees incurred during the year. Legal costs were unusually large due to prior year fraud issues, current labor negotiations and other employee issues. These costs are not expected to reoccur in 2007. In addition to this, there was an increase in administrative salaries of \$29,135 and benefits of \$31,605. These increases were due to a transition of prior employees to current employees. As a result of certain personnel issues there was a duplicate cost incurred during the year.

Tenant Services – Tenant Services costs increased from \$4,087 to \$5,992 (46.61%) or \$1,905. The tenant services have increased due primarily to an increased spending on resident initiative programs.

Utilities - The total utilities expense for the Commission increased by \$2,745 or around 1.81%. This increase is immaterial and is from normal increases in rates.

Maintenance – Maintenance costs are all costs incurred by the Commission to maintain the Public Housing, locally owned and mixed financed units available for occupancy. Costs include personnel costs, materials used to maintain the units, contracts for waste management and telephone/radio service, etc. The Maintenance Expense for the Commission decreased significantly from \$463,665 to \$390,844 or (15.71)% from the fiscal year 2005. There was a decrease of maintenance labor of \$(42,660) and a corresponding decrease in benefits of \$(14,502). These decreases were a result of a maintenance employee who was terminated during the year. And as a result in the reduction of maintenance labor there was an increase in contract costs during the year due to the outsourcing of certain maintenance items.

Protective Services - Protective Services Expense changed from \$2,890 to \$2,153 or a decrease of \$(737).

General Expenses – General Expenses include insurance costs (property, auto, liability, workers' compensation, public officials' liability, lead based paint insurance, etc.), collection losses, payment in lieu of taxes to the City, and other general expenses. General expenses changed from \$81,843 to \$114,066 or an increase of \$32,223. Most of the increase in the general expenses category was due to the increase in insurance expense of \$30,940. As a result of the review of insurance coverage, there were a few policies that needed to increase their coverage amounts and correspondingly the insurance premiums increased.

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

Depreciation – Because the costs of all capitalized additions are spread over the estimated useful life of an asset, the estimated current year costs of capitalized items is recorded as depreciation. Depreciation expense for the current year realized an increase of \$8,308 due to additional assets placed into service during the year.

CAPITAL ASSETS

At the end of fiscal year 2005 the Commission had Capital Assets of \$3,302,803, net of depreciation. As of December 31, 2006, the Commission had decreased its net capital assets by \$(161,620) to \$3,141,183 (4.89%).

The following illustrates the Capital Asset values for 2006 and 2005.

**City of Manistee Housing Commission
Combined Statement of Capital Assets
TABLE IV**

	<u>2006</u>	<u>2005</u>	<u>Total Change</u>	<u>% Change</u>
Land	312,216	312,216	-	0.00%
Buildings & improvements	7,343,178	7,319,857	23,321	0.32%
Equipment	474,930	411,801	63,129	15.33%
Construction in progress	<u>16,312</u>	<u>-</u>	<u>16,312</u>	N/A
	8,146,636	8,043,874	102,762	1.28%
Accumulated Depreciation	<u>(5,005,453)</u>	<u>(4,741,071)</u>	<u>(264,382)</u>	5.58%
Total Capital Assets	<u>3,141,183</u>	<u>3,302,803</u>	<u>(161,620)</u>	-4.89%

The decrease is due to current depreciation expense of \$265,483 which was offset by current year additions of \$103,865. Only \$39,492 was expended through the capitalization program during the year, while the balance of \$64,373 was expended through operations.

**CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FISCAL YEAR ENDED DECEMBER 31, 2006**

LONG-TERM DEBT

There was no long-term debt activity during the year.

ECONOMIC FACTORS AND EVENTS AFFECTING OPERATIONS:

Several factors may affect the financial position of the Commission in the subsequent fiscal year. These factors include:

- (1) The Unemployment Rate for the Manistee County for the year ended December 31, 2006 is 8.4%, compared to the previous year of 7.8%. For the State of Michigan the Unemployment Rate was 6.9% as of December 31, 2006 compared with 6.8% in the previous year.¹
- (2) The Commission is experiencing the effects of full transition to the project based accounting requirements as well as the corresponding adjustments to HUD funding, and the new methodology of the Operating Fund Program. Although the Housing Commission has a strong financial position, the effects of these changes could result in a reduction of revenue in Unrestricted Net Assets. The full impact of HUD's changes and reductions approved by Congress is not yet known.

CONCLUSIONS:

Overall, the City of Manistee Housing Commission maintains a strong financial picture. Its' management is committed to staying abreast of regulations and appropriations as well as maintain an ongoing analysis of all budgets and expenses to ensure that the Commission continues to operate at the highest standards established by the Real Estate Assessment Center and the Department of Housing and Urban Development.

This financial report is designed to provide our residents, the citizens of Manistee, all federal and state regulatory bodies, and any creditors with a general overview of the Commission's finances. If you have any questions regarding these financial statements or supplemental information, you may contact Clinton McKinven-Copus, Executive Directive at (231) 723-6201 or by writing: the City of Manistee Housing Commission, 273 6th Avenue, Manistee, Michigan 49660.

¹ Bureau of Labor Statistics Data website www.bls.gov



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Independent Auditors' Report

City of Manistee Housing Commission
Manistee, Michigan

We have audited the accompanying financial statements of the City of Manistee Housing Commission (the "Commission"), component unit of the City of Manistee, as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Manistee Housing Commission as of December 31, 2006 and changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2007, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of the audit.



PLAN PERFORM PROSPER

**City of Manistee Housing Commission
Manistee, Michigan**

Management's discussion and analysis on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Manistee Housing Commission taken as a whole. The accompanying schedule of expenditures of federal awards contained on page 32 and 33 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The accompanying Schedule of Grant Advances vs. Expenditures on page 34 and the financial data and schedule of grant advances vs. expenditures contained on pages 35 - 39 are also not required parts of the basic financial statements and are presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in relation to the financial statements taken as a whole.

Asher & Company, Ltd.
ASHER & COMPANY, Ltd.

September 11, 2007

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Assets	
Current Assets	
Cash in bank	\$ 599,102
Tenant cash security deposits	<u>45,666</u>
Total cash and cash equivalents	644,768
Tenants accounts receivable, net	1,780
Accounts receivable, notes and loans	12,077
Accounts receivable, other	6,949
Prepaid and other assets	<u>56,694</u>
Total Current Assets	722,268
Noncurrent Assets	
Accounts receivable, notes and loans	<u>4,216</u>
Capital Assets	
Land	312,216
Buildings	7,270,986
Furniture and equipment, dwelling	201,984
Furniture and equipment, administration	272,946
Leasehold improvements	72,192
Accumulated depreciation	(5,005,453)
Construction in progress	<u>16,312</u>
Total Capital Assets, net	<u>3,141,183</u>
Total Assets	<u>\$ 3,867,667</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 26,627
Accrued payroll and taxes	7,656
Accrued compensated absences	5,448
Accounts payable, other government	33,825
Tenant security deposits	45,666
Deferred revenue	<u>3,448</u>
Total Current Liabilities	122,670
Noncurrent Liabilities	
Accrued compensated absences	<u>49,024</u>
Total Liabilities	171,694
Net Assets	
Invested in capital assets, net of related debt	3,141,183
Unrestricted Net Assets	<u>554,790</u>
Total Net Assets	<u>3,695,973</u>
Total Liabilities and Net Assets	<u>\$ 3,867,667</u>

The accompanying notes are an integral part of these
financial statements.

**CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Operating revenues	
Tenant rental revenue	\$ 504,441
Tenant revenue - other	59,026
Fraud recovery	1,299,960
HUD operating grants	413,692
Other income	<u>22,075</u>
Total operating revenues	2,299,194
Operating expenses	
Administrative	424,608
Tenant services	5,992
Utilities	154,468
Ordinary maintenance	390,844
Protective services	2,153
General expenses	114,066
Fraud losses	737,005
Depreciation expense	<u>265,483</u>
Total operating expenses	2,094,619
Operating income	204,575
Non-operating revenues	
HUD capital grants	39,492
Interest income	<u>26,244</u>
Total non-operating revenues	65,736
Increase in Net Assets	270,311
Net Assets, January 1, 2006	<u>3,425,662</u>
Net Assets, December 31, 2006	<u>\$ 3,695,973</u>

The accompanying notes are an integral part of these
financial statements.

**CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from tenants	\$ 579,699
Cash received from operating subsidies	328,787
Cash paid to vendors and contractors	(655,257)
Cash paid for salaries and related expenses	(471,368)
Cash received from non-tenant income	22,075
Cash received for fraud recovery	<u>562,955</u>
Net cash provided by operating activities	<u>366,891</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grant receipts	39,492
Purchase of property plant and improvements	<u>(103,865)</u>
Net cash utilized from capital financing activities	<u>(64,373)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Notes receivable	11,262
Interest on investment	<u>26,244</u>
Net cash provided by investing activities	<u>37,506</u>

Net increase in cash and cash equivalents 340,024

Cash and cash equivalents, beginning of year 304,744

Cash and cash equivalents, end of year \$ 644,768

RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income \$ 204,575

Items which did not use cash:

Depreciation 265,483
Bad debt 3,632

Changes in operating assets and liabilities:

Accounts receivable - tenants (2,168)
Accounts receivable - other (6,091)
Prepaid and other assets (29,508)
Accounts payable (7,075)
Accrued payroll and taxes 198
Accrued compensated absences 1,891
Accounts payable - other government (56,474)
Tenant security deposits 20,859
Deferred revenue (28,431)

Net cash provided by operating activities \$ 366,891

The accompanying notes are an integral part of these
financial statements.

**CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Organization

The City of Manistee Housing Commission (the "Commission") is a Public Housing Authority created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. An executive director is appointed by the Commission's Board to manage the day-to-day operations of the Commission. The Commission operates under the provisions of the U. S. Housing Act of 1937 (the "Act"). The Act, as amended, empowers the Commission to perform planning, construction, financing, maintenance and management of the public housing developments in the City of Manistee.

The Commission is provided with the majority of its funding through two contractual agreements: an Annual Contributions Contract ("ACC") and a Cooperation Agreement. The Annual Contributions Contract with the United States Department of Housing and Urban Development "HUD" provides loans to the Commission during developmental phases as well as subsidies during the operating period to maintain its housing program. The Cooperation Agreement with the City of Manistee obligates the Commission to make payments in lieu of taxes to the Government of the City of Manistee whenever residual receipts are available, and whereby the Government agrees to provide municipal services and continue the tax-exempt status of the Commission's projects.

The Commission administers the following HUD low rent housing program:

<u>Program</u>	<u>Contract Number</u>	<u>Number of Units</u>
PHA Owned Housing	C3077	220

Description of Programs

Low Rent Housing Program

The funding for public housing authorities is received from the HUD and from participants in public housing programs. Under the Low Rent Housing Assistance Program, low-income tenants pay monthly rents which are determined by their need for assistance. HUD pays operating subsidies to the Commission to enable the Commission to maintain the low-income program while providing adequate services.

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Fund Program

The purpose of the Capital Fund Program is to provide another source of funding to cover the cost of physical and management improvements and rehabilitation on existing low-income housing and improvements to the central office facilities. Funding for this program is provided by grants from HUD.

Basis of presentation: The Commission's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. GASB 34 also requires the Commission to include Management's Discussion and Analysis as part of the Required Supplemental Information.

The Commission's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Commission has complied with the grant and subsidy requirements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, the Commission has elected to apply all Financial Accounting Standards Board pronouncements, Accounting Principle Board Opinions and Accounting Research Bulletins issued that do not conflict with or contradict GASB Pronouncements.

General Budget Policies: The Commission adopted budgets for all HUD-funded programs. The budget is controlled by fund at the function level.

Cash and cash equivalents: Cash consists of cash on hand held by depository institutions and trustees in the Commission's name. For purposes of the statement of cash flows, the Commission considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Assets: Capital assets are recorded at historical cost at the date of acquisition. Assets are depreciated using the straight-line method over the estimated useful lives as follows:

Land	N/A
Building	40 years
Improvements	15 years
Equipment and Vehicles	5 years
Furniture	5 years

The Commission has established a capitalization threshold of \$300.

Accounts Receivable: The majority of the accounts receivables represent uncollected laundry commission and reimbursements from former employees for health insurance.

Notes Receivable: Notes receivable are carried at their uncollected principal balances less allowance for note losses. No allowance has been established, the Commission expects to collect the entire amount.

Tenants Accounts Receivable: Rents are due from tenants on the first day of each month. As a result, tenants accounts receivable balances primarily consist of rents past due and vacated tenants.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is the amount necessary, in management's judgment to adequately reflect the net realizable balance of the accounts receivables.

Tenant Security Deposits: Tenant security deposits represent amounts withheld from tenants of the low-income rental project.

Compensated Absences: Commission employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. The amount of vacation and sick pay recognized as expense is the amount earned by the employees each year.

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Deferred Revenue: Deferred revenue consists of cash received from residents of the Low Rent Housing program for rent in advance of their actual due date.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenses consist primarily of prepaid insurance.

Revenues and Expenses: The Commission defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. The Commission classifies all other revenues as non-operating.

Net Assets: Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets can be classified in the following three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets (debt related to unspent proceeds or other restricted cash and investments is excluded from the determination). Restricted assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories. As of December 31, 2006 there were no restricted net assets or outstanding debt attributable to capital assets.

**CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE B - CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

HUD requires Housing Authorities to invest excess funds in obligations of the United States, Certificates of Deposit insured by the Federal Deposit Insurance Corporation (FDIC), or any other federally insured investment.

HUD requires that uninsured deposits be fully collateralized at all times. Pursuant to HUD regulations, tenant security deposits are allowed to be held in the form of obligations of the United States. Obligations furnished as security must be held by the Commission or with a bank or trust company for the account of the Commission.

At year-end the carrying amount of the Commission's cash and cash equivalents was \$644,768. All funds are covered by the FDIC or collateralized by obligations of the United States that are held by the Commission's agent in the Commission's name.

NOTE C - NOTE RECEIVABLE

The note receivable is due from a former tenant, for significant property damage totaling \$29,357. The receivables at December 31, 2006 totaled \$16,293 of which \$12,077 is reported as current assets and \$4,216 is reported as non-current assets. Management estimates the amounts are fully collectable and no allowance for doubtful accounts has been created.

NOTE D - ALLOWANCES FOR UNCOLLECTIBLES

Allowances for doubtful accounts for tenant receivables at December 31, 2006 are \$781. The amount for uncollectible accounts was decreased in fiscal year 2006 by \$717 and the uncollectible accounts charged to general expense totaled \$3,632.

NOTE E - FRAUD RECEIVABLE

The fraud receivable is due from the prior Executive Director. The prior Executive Director was prosecuted and found guilty of defrauding the Commission of \$1,300,000. The prior Executive Director signed a plea agreement with U.S. District Court agreeing to refund an amount of \$1,300,000. The Commission received \$562,995 in restitution from the prior Executive Director in 2006. The receivable at December 31, 2006 totaled \$737,005.

NOTE F - ALLOWANCE FOR FRAUD RECEIVABLE

Allowances for fraud receivables at December 31, 2006 are \$737,005. The Commission deemed the remaining receivable balance is unlikely to be collected.

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE G - CAPITAL ASSETS

At December 31, 2006, capital assets consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 312,216	\$ -	\$ -	\$ 312,216
Site Improvements	72,192	-	-	72,192
Building	4,650,792	-	-	4,650,792
Building improvements	2,596,871	23,323	-	2,620,194
Furniture and equipment	411,801	64,229	(1,100)	474,930
Construction in Progress	-	16,312	-	16,312
Subtotal	8,043,873	103,864	(1,100)	8,146,636
Accumulated depreciation	<u>(4,741,070)</u>	<u>(265,483)</u>	<u>1,100</u>	<u>(5,005,453)</u>
Total	<u>\$ 3,302,803</u>	<u>\$ (161,619)</u>	<u>\$ -</u>	<u>\$ 3,141,183</u>

The related depreciation for the year ended December 31, 2006 totaled \$265,483. Management periodically evaluates whether any long-lived asset's fair value is less than its book value. In that event, the asset is written down to its fair value as an impaired asset. As of December 31, 2006, management has determined that no long-lived assets have been impaired.

NOTE H - RETIREMENT PLAN

At December 31, 2006, the date of the last completed actuarial evaluation, the Commission's termination liability for retirement benefits was \$415,820 (employer and employee combined). Valuation assets available to meet this obligation were \$317,826. The Commission's estimated monthly contribution for the fiscal year beginning January 1, 2007 is \$214. There are seven active employees, one vested former member, and one retiree and/or beneficiary. There is an over-funded balance of \$95,711 as of December 31, 2006. Statistical information concerning the plan can be obtained from the Municipal Employees' Retirement System of Michigan (MERS), which is contained in their annual actuarial valuation.

**CITY OF MANISTEE HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE I - POST-EMPLOYMENT BENEFITS

The Commission also provides post-retirement health care benefits to all employees and their dependents. The group premium is payable 75 percent by the employer and 25 percent by the employee or spouse. The total amount of post-employment health care expense for the year ended December 31, 2006 is \$22,766.

NOTE J - RISK MANAGEMENT

The Commission is exposed to all common perils associated with the ownership and rental of real estate properties. A risk management program using commercial carriers has been established to minimize loss occurrence and to transfer risk through various levels of insurance. General liability, property/casualty insurance is used to reduce the respective perils.

Commercial carriers insure all common perils such as property, casualty, employee dishonesty, public official's liability, business auto, computer, and other miscellaneous perils.

NOTE K - ECONOMIC DEPENDENCE

The Commission is economically dependent on receiving rental income and subsidies and grants from HUD. The Commission also receives under a cooperation agreement with the City of Manistee, garbage removal, sewer service, street and sidewalk maintenance, public lighting, police and fire department protection.

NOTE L - COMPONENT UNIT

The Commission is considered a discretely presented component unit of the City of Manistee. The City of Manistee appoints the Commission's five member Board of Commissioners and can significantly influence the programs, projects, activities or level of service performed at the Commission. The financial statements of the City of Manistee may be obtained by contacting the Director of Finance, City of Manistee, 70 Maple Street, PO Box 358, Manistee, MI 49660-0358.

NOTE M - CONTINGENCY

The Commission entered into an agreement to purchase land for \$45,000 on August 30, 2007. Settlement of the transaction is contingent upon discharge of a lien issued from the Michigan Department of Environmental Quality.

OTHER MATTERS



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**Report On Internal Control Over Financial
Reporting And On Compliance and Other Matters Based On An
Audit Of Financial Statements Performed in Accordance
With Government Auditing Standards**

**City of Manistee Housing Commission
Manistee, Michigan**

We have audited the financial statements of the City of Manistee Housing Commission (the "Commission") as of and for the year ended December 31, 2006, and have issued our report thereon dated September 11, 2007. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The following significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.



PLAN. PERFORM. PROSPER.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as 2006-4.

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Asher & Company, Ltd.

ASHER & COMPANY, Ltd.

September 11, 2007



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**Report on Compliance With Requirements Applicable To
Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133**

**City of Manistee Housing Commission
Manistee, Michigan**

Compliance

We have audited the compliance of the City of Manistee Housing Commission (the "Commission") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Commission's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

As described in items 2006-5 and 2006-6 in the accompanying schedule of findings and questioned costs, the Commission did not comply with requirements regarding resident participation funding and the waiting list that are applicable to its Low Income Public Housing Assistance program. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements applicable to that program.



PLAN. PERFORM. PROSPER.

As described in item 2006-7 in the accompanying schedule of findings and questioned costs, the Commission did not comply with requirements regarding debarment of vendors that are applicable to its Public Housing Capital Fund. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding two paragraphs, the Commission complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, some of which we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirements of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2006-5 thru 2006-7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs we consider items 2006-6 and 2006-7 to be material weaknesses.



PLAN PERFORM PROSPER

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Asher & Company, Ltd.
ASHER & COMPANY, Ltd.

September 11, 2007

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Section I -Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified opinion

Yes No

Internal control over financial reporting:
Material weakness (es) identified? X

Were significant deficiencies identified not considered to be
material weaknesses? X

Noncompliance material to financial statements noted? X

Federal Awards

Internal control over major programs:
Material weakness (es) identified? X

Were significant deficiencies identified not considered to be
material weaknesses? X

Type of auditor's report issued on compliance for major qualified opinion
programs:
Any audit finding disclosed that are required to be reported in X
accordance with section 510(a) of Circular A-133?

Identification of major programs:

CFDA Numbers	Name of Federal Program
-----------------	-------------------------

14.850a	Low Income Housing Assistance Programs
---------	--

14.872	Public Housing Capital Fund
--------	-----------------------------

Dollar thresholds used to distinguish between type A and B programs:	\$ 300,000
--	------------

Auditee qualified as low-risk auditee?	No
--	----

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Section II - Financial Statement Findings

2006-1 Fixed Asset Reconciliation

Fixed assets are a substantial investment for housing authorities nationwide. Related accounting and internal controls are an integral and required component for financial reporting accuracy. The fixed asset schedule has not been reconciled to the general ledger.

Recommendation: The Commission must reconcile the fixed asset ledger to the control account in the general ledger in order to assure accurate reporting of the fixed assets in the financial statements and to protect the security of those assets.

Question Costs: Undetermined

Management Response: Management plans to complete a fixed asset reconciliation after completing a physical fixed asset count.

2006-2 Lack of Physical Inventory for Fixed Assets

Fixed assets are a substantial investment for housing authorities nationwide. Related accounting and internal controls are an integral and required component for financial reporting accuracy. As a result of our audit procedures, we noted that a physical inventory of fixed assets is required to be completed at least once every two years according to the Code of Federal Regulations 24.85. The Commission did not take a physical fixed asset inventory within the past two years.

Question Costs: Undetermined

Recommendation: Even though Federal regulation requires a physical fixed asset inventory be taken once every two years, we recommend that a physical fixed asset inventory be taken annually.

Management Response: Current Management will perform a physical inventory of all equipment and real property.

2006-3 Deficiency in Cash Disbursements

As a result of audit procedures in the cash disbursements area, we found that 32 out of 40 invoices were not effectively canceled after payment was made and not approved for payment. The Commission paid an electric bill twice due to the lack of controls.

Question Costs: Undetermined

Recommendation: To maintain stronger controls over cash disbursements, we recommend invoices be canceled by stamping "PAID" on the face of the invoice upon final payment and all invoices should be approved for payment and initialed and dated by the appropriate staff.

Section II - Financial Statement Findings (continued)

Additionally, the staff should update their Standards for Operating Procedures (SOP's) and receive training.

Management Response: Current Management will evaluate the accounts payable system and make necessary adjustments to ensure accurate and timely reporting; provide staff training encompassing the accounts payable process; and establish a system of reconciliation to facilitate an accurate financial management system.

2006-4 HUD Form 51999

The 24 Code of Federal Regulations, The Annual Contributions Contract (ACC) and PIH Notice 2002-13, which refers to PIH Notice 96-33, paragraph 2 state that General Depository Agreements (GDA) are required for all financial institutions which have federal funds on deposit. The requirement has been extended and has an indefinite expiration date. The GDA requires that "deposits and accounts of the Depository must be insured by the Federal Deposit Insurance Corporation or National Credit Union Shared Insurance Fund." The GDA further requires "any portion of PHA/IHA funds not insured by a Federal Insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD." Such collateral shall, at all times, have a market value of at least equal to the amount of the deposits so secured.

Form HUD-51999, General Depository Agreement could not be located between the Commission and West Shore Bank.

Recommendation: We recommend that the Commission execute form(s) HUD-51999 for all accounts with federal funds on deposit and submit executed HUD-51999, with original signatures, along with the security listing to the local Field Office.

Question Costs: Undetermined

Management Response: Current Management will execute HUD-51999 and submit executed form to local Field Office.

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Section III - Federal Award Findings and Questioned Costs

2006-5 Resident Participation Funding

HUD funds the Commission \$25 per occupied unit each year for the purpose of Resident Participation activities. Resident Participation activities include consultation and outreach for public housing residents that support active interaction between the Commission and the residents. The scope of resident participation shall include such activities as those to inform, acquaint, advise, promote and update residents of public housing concerning the issues and/or operation that affect resident households and their living environment, resident surveys and other forms of resident input. The Commission must ensure the funds are allocated towards resident participation activities and properly recorded and tracked in the general ledger. HUD has issued PIH Notice 2001-3 and regulation, 24 CFR Part 964, to provide guidance. The Commission made expenditures that do not meet the requirements of 24 CFR 964.

Recommendation: We recommend the Commission develop programs that meet the requirements of 24 CFR 964. If the Commission decides to pass the funds to the Resident Board, then it is the responsibility of the Commission to provide sub-recipient monitoring on the spending of these funds.

Question Costs: Undetermined

Management Response: Current Management plans to institute programs that meet the requirements of 24 CFR 964.

2006-6 Deficiency in Maintaining Waiting List

We observed that the Commission failed to maintain an accurate Waiting List. Once an applicant is placed, they are removed from the list leaving no history. 24 CFR 960 states the method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the PHA plan.

Recommendation: We recommend that the Commission contact their current software provider for guidance to meet the standards of 24 CFR 960.

Question Costs: Undetermined

Management Response: Current Management is aware the Waiting List has not been kept accurately in the past. The Commission recently invested in a new software system. The staff is still in the process of learning the new system. The Commission will contact the software provider for guidance to meet the standards of 24 CFR 960.

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Section III - Federal Award Findings and Questioned Costs
(continued)**

2006-7 Debarment of Vendors

24 CFR 85.35 requires housing authorities to verify that vendors are not debarred or suspended or excluded (ineligible) for participation in federal assistance programs. Review of the contracts revealed that vendors were not checked for debarment.

Recommendation: We recommend the Commission perform a vendor debarment evaluation to determine if the vendor is eligible to perform services for the Commission.

Question Costs: Undetermined

Management Response: Management will check for debarment for all vendors.

SUPPLEMENTARY INFORMATION

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>EXPENDITURES</u>
Department Of Housing And Urban Development		
Low Income Public Housing Assistance Program	14.850a	\$351,214
Public Housing Capital Fund	14.872	<u>101,970</u>
 Total Federal Program		 <u>\$453,184</u>

**CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Manistee Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Non-Cash Federal Assistance

The Commission did not receive any non-cash Federal assistance for the year ended December 31, 2006.

3. Loan Guarantees

At December 31, 2006, the Commission is not the guarantor of any loans outstanding.

**CITY OF MANISTEE HOUSING COMMISSION
SCHEDULE OF GRANT ADVANCES VS. EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>CFP 501-04</u>	<u>CFP 501-05</u>	<u>CFP 501-06</u>	<u>Totals</u>
Budget	<u>\$ 303,946</u>	<u>\$ 278,367</u>	<u>\$ 248,902</u>	<u>\$ 831,215</u>
<u>Advances:</u>				
Cumulative through 12/31/05	273,811	12,369		286,180
Current Year	<u>30,135</u>	<u>51,835</u>	<u>20,000</u>	<u>101,970</u>
Cumulative through 12/31/06	<u>303,946</u>	<u>64,204</u>	<u>20,000</u>	<u>388,150</u>
<u>Expenditures:</u>				
Cumulative through 12/31/05	273,811	12,369		286,180
Current Year	<u>30,135</u>	<u>51,835</u>	<u>20,000</u>	<u>101,970</u>
Cumulative through 12/31/06	<u>303,946</u>	<u>64,204</u>	<u>20,000</u>	<u>388,150</u>
Excess / (Deficiency) of Advances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Summary</u>				
<u>Soft Costs:</u>				
Cumulative through 12/31/05	252,225	1,465		253,690
Current Year	<u>9,135</u>	<u>33,343</u>	<u>20,000</u>	<u>62,478</u>
Cumulative through 12/31/06	<u>261,360</u>	<u>34,808</u>	<u>20,000</u>	<u>316,168</u>
<u>Hard Costs:</u>				
Cumulative through 12/31/05	21,586	10,904	-	32,490
Current Year	<u>21,000</u>	<u>18,492</u>	-	<u>39,492</u>
Cumulative through 12/31/06	<u>42,586</u>	<u>29,396</u>	-	<u>71,982</u>
Cumulative	<u>\$ 303,946</u>	<u>\$ 64,204</u>	<u>\$ 20,000</u>	<u>\$ 388,150</u>

PHA: MI078 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$599,102	\$0	\$599,102
114	Cash - Tenant Security Deposits	\$45,666	\$0	\$45,666
100	Total Cash	\$644,768	\$0	\$644,768
125	Accounts Receivable - Miscellaneous	\$6,949	\$0	\$6,949
126	Accounts Receivable - Tenants - Dwelling Rents	\$2,561	\$0	\$2,561
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-781	\$0	\$-781
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0
127	Notes, Loans, & Mortgages Receivable - Current	\$12,077	\$0	\$12,077
128	Fraud Recovery	\$737,005	\$0	\$737,005
128.1	Allowance for Doubtful Accounts - Fraud	\$-737,005	\$0	\$-737,005
120	Total Receivables, net of allowances for doubtful accounts	\$20,806	\$0	\$20,806
142	Prepaid Expenses and Other Assets	\$56,694	\$0	\$56,694
150	Total Current Assets	\$722,268	\$0	\$722,268
161	Land	\$312,216	\$0	\$312,216
162	Buildings	\$7,270,986	\$0	\$7,270,986
163	Furniture, Equipment & Machinery - Dwellings	\$201,984	\$0	\$201,984
164	Furniture, Equipment & Machinery - Administration	\$227,276	\$45,670	\$272,946
165	Leasehold Improvements	\$62,192	\$10,000	\$72,192
166	Accumulated Depreciation	\$-4,992,896	\$-12,557	\$-5,005,453
167	Construction In Progress	\$0	\$16,312	\$16,312
160	Total Fixed Assets, Net of Accumulated Depreciation	\$3,081,758	\$59,425	\$3,141,183
171	Notes, Loans, & Mortgages Receivable - Non Current	\$4,216	\$0	\$4,216
180	Total Non-Current Assets	\$3,085,974	\$59,425	\$3,145,399
190	Total Assets	\$3,808,242	\$59,425	\$3,867,667

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Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$26,627	\$0	\$26,627
321	Accrued Wage/Payroll Taxes Payable	\$7,656	\$0	\$7,656
322	Accrued Compensated Absences - Current Portion	\$5,448	\$0	\$5,448
333	Accounts Payable - Other Government	\$33,825	\$0	\$33,825
341	Tenant Security Deposits	\$45,866	\$0	\$45,866
342	Deferred Revenues	\$3,448	\$0	\$3,448
310	Total Current Liabilities	\$122,670	\$0	\$122,670
354	Accrued Compensated Absences - Non Current	\$49,024	\$0	\$49,024
350	Total Noncurrent Liabilities	\$49,024	\$0	\$49,024
300	Total Liabilities	\$171,694	\$0	\$171,694
508	Total Contributed Capital	\$0	\$0	\$0
508.1	Invested In Capital Assets, Net of Related Debt	\$3,081,758	\$59,425	\$3,141,183
511	Total Reserved Fund Balance	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$554,790	\$0	\$554,790
513	Total Equity/Net Assets	\$3,636,548	\$59,425	\$3,695,973
600	Total Liabilities and Equity/Net Assets	\$3,808,242	\$59,425	\$3,867,667

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Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$504,441	\$0	\$504,441
704	Tenant Revenue - Other	\$59,026	\$0	\$59,026
705	Total Tenant Revenue	\$563,467	\$0	\$563,467
706	HUD PHA Operating Grants	\$351,214	\$62,478	\$413,692
706.1	Capital Grants	\$0	\$39,492	\$39,492
711	Investment Income - Unrestricted	\$26,244	\$0	\$26,244
714	Fraud Recovery	\$1,299,960	\$0	\$1,299,960
715	Other Revenue	\$22,075	\$0	\$22,075
700	Total Revenue	\$2,262,960	\$101,970	\$2,364,930

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Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$128,880	\$0	\$128,880
912	Auditing Fees	\$10,480	\$0	\$10,480
914	Compensated Absences	\$1,891	\$0	\$1,891
915	Employee Benefit Contributions - Administrative	\$78,358	\$0	\$78,358
916	Other Operating - Administrative	\$173,321	\$31,678	\$204,999
924	Tenant Services - Other	\$5,992	\$0	\$5,992
931	Water	\$37,126	\$0	\$37,126
932	Electricity	\$69,384	\$0	\$69,384
933	Gas	\$47,958	\$0	\$47,958
941	Ordinary Maintenance and Operations - Labor	\$160,146	\$0	\$160,146
942	Ordinary Maintenance and Operations - Materials and Other	\$66,671	\$0	\$66,671
943	Ordinary Maintenance and Operations - Contract Costs	\$59,845	\$0	\$59,845
945	Employee Benefit Contributions - Ordinary Maintenance	\$104,182	\$0	\$104,182
953	Protective Services - Other	\$2,153	\$0	\$2,153
961	Insurance Premiums	\$76,609	\$0	\$76,609
963	Payments in Lieu of Taxes	\$33,825	\$0	\$33,825
964	Bad Debt - Tenant Rents	\$3,632	\$0	\$3,632
969	Total Operating Expenses	\$1,060,453	\$31,678	\$1,092,131
970	Excess Operating Revenue over Operating Expenses	\$1,202,507	\$70,292	\$1,272,799
974	Depreciation Expense	\$256,226	\$9,257	\$265,483
975	Fraud Losses	\$737,005	\$0	\$737,005
900	Total Expenses	\$2,053,684	\$40,935	\$2,094,619
1001	Operating Transfers In	\$30,800	\$0	\$30,800
1002	Operating Transfers Out	\$0	\$-30,800	\$-30,800
1010	Total Other Financing Sources (Uses)	\$30,800	\$-30,800	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$240,076	\$30,235	\$270,311

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Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0
1103	Beginning Equity	\$3,396,472	\$29,190	\$3,425,662
1120	Unit Months Available	2,640	0	2,640
1121	Number of Unit Months Leased	2,274	0	2,274

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